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Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

Our Trade Deficit Shrinks

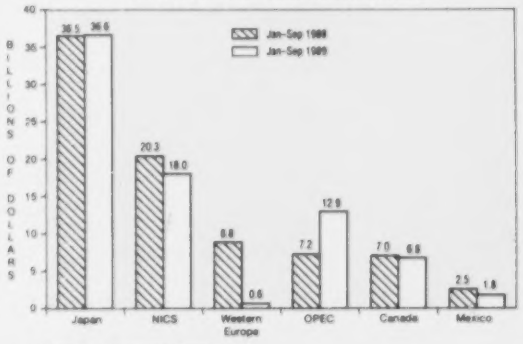
Despite the sharp rise in the dollar earlier this year, the U.S. foreign trade picture has continued to improve. Our trade deficit narrowed to a seasonally adjusted $7.94 billion in September, a figure that was far lower than had been expected in the foreign exchange community. However, while September's deficit was the smallest monthly shortfall posted in almost five years, it was greeted with reserve both by the Bush Administration and by the foreign exchange markets. This is because they interpreted the decline in imports as one more sign of a slowdown in U.S. economic activity.

The Commerce Department also announced that August's trade deficit, initially estimated at $10.8 billion, was revised downward to $10.1 billion. While both the September and the August trade figures deviated significantly from this year's monthly average of $8.9 billion, the average for the third quarter was lower than the previous three months as well as when compared with year-ago levels. The average monthly trade deficit for the third quarter of this year narrowed to $8.7 billion from $8.8 billion in the April-June quarter, and was almost seven percent below the $9.3 billion monthly average recorded in 1988's third quarter. What is more, September's shortfall brings the trade deficit for the first nine months of this year to $80.42 billion, some nine percent below last year's figure of $87.94 billion, suggesting that the trade gap for the entire year should come in at around $105-$110 billion compared with $118½ billion in 1988, and a whopping $153 billion in 1987.

Most of September's improvement came on the import side of the ledger, a reflection of the slowdown in manufacturing activity that has occurred in recent months. Paced by a $900 million decline in industrial materials and supplies and a $700 million decline in capital goods, total imports fell by 3.9 percent in September from the previous month, to $39.08 billion.

At the same time, although the rate of export growth has decelerated from the rapid clip of earlier this year, foreign sales are still running close to record levels. Led by a surge in orders for U.S. aircraft, exports in September totaled $31.14 billion, up 1.9 percent from August and just shy of the record $31.29 billion set in June. During the first nine months of this year, exports have increased by almost 15 percent from last year's first three quarters, or nearly twice the eight percent pace of import growth.

U.S. MERCHANDISE TRADE DEFICIT
WITH SELECTED TRADING PARTNERS



Source: Commerce Department

The Improvement is Widespread

Looking beneath the surface, the United States has pared its trade deficit with almost all of its major trading partners this year, except Japan, and, reflecting the rebound of oil prices, the OPEC nations (see chart). The biggest improvement has been with the 22 countries of Western Europe. Despite the sharp rise of the dollar earlier this year, the U.S. trade shortfall with Western Europe shrank to a mere $640 million in the first nine months of the year from $8.8 billion in the year-earlier period. In fact, the United States has actually posted a trade surplus this year with the 12-member European Community (EC)—to the tune of $1.2 billion—versus a deficit of $6.7 billion in the first three quarters of 1988. In particular, we have even managed to cut our trade deficit with West Germany by more than 30 percent this year, a period which has seen that country's trade surplus with the rest of the world soar to record levels.

During the first nine months of this year, the United States also reduced its trade deficit with Canada, our largest trading partner, to $6.75 billion from $7.02 billion in the previous year, while our shortfall with Mexico, our third

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largest trading partner following Canada and Japan, plunged by over 30 percent to $1.77 billion, reflecting Mexico's efforts to liberalize its economy over the past few years. So, too, the deficit with the newly industrialized countries (NICs) of East Asia (Taiwan, Korea, Hong Kong, and Singapore), a region where trade progress had been extremely slow until now, shrank by some $2½ billion to $17.98 billion during the first three quarters of this year. Indeed, the only one of our major trading partners with whom our bilateral deficit widened was Japan. Our trade gap went from $36.49 billion in the first nine months of 1988, to $36.61 in the same period this year.

Such results hardly support the claim that U.S. trade balance progress has stalled. Indeed, there is a good chance that our annual trade deficit could fall below $100 billion next year for the first time since 1983. For one thing, the slowdown in U.S. economic activity indicates further reductions in import demand down the road. For another, the robust economic growth rates of many of our trading partners should enable the United States to post higher export totals in the coming months. Finally, with the dollar currently well within the preferred trading range of 1.70 to 1.90 marks and only just outside of the 120 to 140 yen target band, a more competitive exchange rate bodes well for

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/15/89)	218,435	- 304	+ 24,384
New York City (11/22/89)	41,804	- 799	+ 494
Commercial Paper (11/22/89)	516,066	+ 1,126	+ 76,173

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/15/89)	320,342	+ 2,022	+ 19,943
New York City (11/22/89)	60,516	- 890	+ 4,700

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/15/89)	994,549	+ 6,207	+ 87,662
New York City (11/22/89)	182,725	- 3,635	+ 8,923

Financial Markets

	Friday 12/1/89	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.76%	+ .12	- .59
180-Day Bills†	7.73	- .13	- .97
Longest Bills†	7.64	+ .07	- 1.28
Recent Issues:			
7⅛s 11/30/89	7.68	NA	
8⅛s 9/30/93	7.74	+ .03	
7⅞s 11/15/99	7.80	-0-	
8⅛s 8/15/19	7.88	-0-	
Municipals:			
Bond Buyer—20 Bond Index* (11/30/89)	7.04%	- .04	- .62
Blue List Total ($ Million)	$1,177	- $ 34	- $ 282
30-Day Visible Supply ($ Million)	$3,200	+ $369	+$1,319
Total	$4,377	+ $335	+$1,037
Corporates:			
Moody's Aa Composite (11/30/89)	9.13	-0-	- .65
30-Day Visible Supply ($ Million)	$2,065	+ $295	+$ 620
Stocks:			
Dow-Jones Averages:			
Industrials	2,747.65	+ 72.10	+657.32
Transportation	1,202.35	+ 26.32	+269.15
Utilities	227.81	+ 6.23	+ 44.84
65 Stocks	1,034.97	+ 26.03	+237.09
N.Y.S.E. Composite Index	193.66	+ 3.37	+ 40.64
N.Y.S.E. Avg. Daily Vol. for Week (000's)	160,760	+ 33,530	+28,004

*34% Taxable equivalent 10.67%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/1/89	Week Ago
Overnight	8.43%	8.38%
1 month	8.56	8.38
3 month	8.38	8.38
6 month	8.13	8.19
1 year	8.00	8.12

FOREIGN EXCHANGE SPOT RATES New York Opening (12/1/89)	Currency Per U.S. $	Week Ago
Belgium	37.44	37.99
Canada	1.1672	1.1701
France	6.0850	6.1600
Germany	1.7828	1.8082
Italy	1313.00	1334.00
Japan	143.30	143.83
Mexico	2619.00	2604.00
Netherlands	2.0105	2.0405
South Korea	672.70	672.00
Switzerland	1.5953	1.6117
Taiwan	26.14	26.05
U.K.*	1.5640	1.5640

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (12/1/89) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.1%	-3.2%

further U.S. trade progress.

But the Dollar Will Fall Further

Although the foreign exchange markets' initial reaction to September's trade figures was to push the dollar higher, its appreciation was quickly reversed by interest rate considerations. The fall in imports was interpreted as another sign of a weakening U.S. economy, which, in turn, is supposed to prompt the Federal Reserve to ease U.S. interest rates even further to avoid a recession. At the same time, Germany's robust economy and strong inflation pressures have raised market expectations of another rise in German interest rates by early next year.

Less than a year ago, U.S. short-term interest rates were above nine percent, while German rates were below five percent. Since then, U.S. rates have fallen by around 100 basis points while German interest rates have almost doubled, reducing the U.S. interest rate advantage to barely one quarter percentage point. If current trends continue, U.S. interest rates could soon dip below German rates for the first time in over a decade. Thus, with interest rate differentials and economic fundamentals, including a faster growth pace, a lower inflation rate and a hefty current account surplus, clearly in Germany's favor, the days of the high-flying dollar are probably over.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/29/89	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	226.904	- 3.101	- 11.831
Loans to Depository Inst.	.680	+ .478	- 1.687
Float	.971	+ .122	+ .476
Total Reserve Bank Credit	264.484	+ 3.494	+ 5.066
Treasury Deposits with Federal Reserve Banks	5.093	+ .643	- .044
Currency in Circulation	253.641	+ .643	+11.462
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	233.024	- 4.007	- 2.107
	11/29/89		
Member Bank Reserves:			
Total Reserves Held	59.606	- .199	- .901
Excess (Deficiency)	.868	+ .024	+ .233
Net Free Reserves	.450	- .142	+ .514

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	% Change Since Year Ago
M1 (11/20/89)	791.0	+ 5.5	+ 0.3
M2 (11/20/89)	3,200.2	+ 4.5	+ 7.4
M3 (11/20/89)	4,049.8	+ 3.3	+ 3.9
Domestic Nonfinancial Debt (2nd Q'89)	9,427.7	+ 6.4	+ 8.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/1/89	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.55%	7.37%	7.16%
* Federal Agencies	8.00	7.90	7.90
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.33	8.71	9.09
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.30	8.15	8.00

‡ Finance Company Paper–Prime

5- 14 days	8.40%
15- 29 days	8.35
30- 59 days	8.38
60- 89 days	8.18
90-179 days	7.93
180-239 days	7.55
240-270 days	7.55

‡* Bankers' Acceptances

Jan.	8.48%
Feb.	8.25
Mar.	8.08
Apr.	7.95
May	7.83
Jun.	7.73

‡ Industrial Paper–Prime

30- 89 days	8.45%
90-120 days	8.25

†Federal Funds Effective Rate 8.44%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'89	$ 5,279r	$ 5,202	$ 4,927
Gross National Product (1982 Dollars)*	3rd Q'89	$ 4,160r	$ 4,133	$ 4,043
Percent Change, Annual Rate	3rd Q'89	2.7r	2.5	3.2
Change in Consumer Prices*	Oct '89n	6.0%	2.4%	4.8%
Change in MH Cost of Living Index*	Oct '89n	7.2%	6.0%	6.0%
Change in Producer Prices*	Oct '89	4.8%	10.8%	1.2%
Civilian Employment (Thousands of Persons) †	Oct '89	117,545	117,456	115,573
Unemployment as % of Civilian Labor Force †	Oct '89	5.3%	5.3%	5.3%
Personal Income*	Oct '89n	$ 4,510	$ 4,470r	$ 4,180
Leading Indicators Composite Index (1967=100) †	Oct '89n	144.8	145.2r	144.0
Industrial Production Index (1977=100) †	Oct '89	141.4	142.4	139.4
Net Change in Consumer Installment Credit †	Sep '89	$ 0.61	$ 2.66	$ 1.89
U.S. Merchandise Trade Balance †	Sep '89	- $ 7.94	- $ 10.10	-$ 9.17
Plant and Equipment Expenditures*	4th Q'89	$483.04(a)	$ 481.24(a)	$442.11
Private Housing Starts (Thousands of Units)*	Oct '89	1,420	1,268	1,532
New Construction Expenditures*	Oct '89n	$ 420.1	$ 415.9r	$ 411.1
Total Business Inventories †	Sep '89	$ 791.8	$ 790.4	$ 744.0
Total Business Sales †	Sep '89	$ 524.6	$ 526.3	$ 491.6

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.